

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF CALIFORNIA

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McKESSON INFORMATION
SOLUTIONS INC.,

Plaintiff,

v.

BRIDGE MEDICAL, INC.,
Defendant.

NO. CIV. S-02-2669 FCD KJM

MEMORANDUM AND ORDER

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This matter is before the court on defendant Bridge Medical, Inc.'s ("Bridge") motion for attorney fees, pursuant to 35 U.S.C. § 285, in the amount of \$4,044,581.13, plus post-judgment interest.¹ Bridge moves for said fees on the grounds that (1) it is the prevailing party based on the court's June 13, 2006 order, finding plaintiff McKesson Information Solutions Inc.'s ("McKesson") '716 patent unenforceable for inequitable conduct,

¹ Said amount excludes fees for time spent on litigating the instant motion; while Bridge requested fees for this work, it did not provide the court with an amount requested.

1 and (2) the court's finding of inequitable conduct renders this
2 case "exceptional" within the meaning of § 285. Consideration of
3 the type of inequitable conduct in this case in conjunction with
4 McKesson's bad faith pursuit of baseless claims and vexatious
5 litigation tactics, Bridge argues, warrants the court exercise
6 its discretion and award fees. McKesson opposes the motion,
7 arguing that this case is not "exceptional" within the meaning of
8 § 285, and even if it were, an award of fees is not appropriate
9 in this case where neither McKesson nor its predecessor-in-
10 interest were involved in the inequitable conduct, and McKesson
11 did not pursue baseless claims or engage in vexatious litigation
12 tactics.

13 The court heard oral argument on the motion on August 18,
14 2006. By this order, it now renders its decision on the motion.
15 While the court's order finding the '716 patent unenforceable for
16 inequitable conduct amply supports a finding of an "exceptional"
17 case, numerous factors, described below, militate against an
18 award of fees in this case. Thus, despite the court's finding
19 that this case is "exceptional" within the meaning of § 285, the
20 court declines to award fees to Bridge.

21 McKesson has been seriously punished in this case--its
22 patent rights have been deemed unenforceable and its infringement
23 claims against Bridge rendered moot thereby. Under the factual
24 circumstances of this case, the court cannot, in its discretion,
25 *further* punish McKesson by an award of fees to Bridge. Such an
26 award would not serve the interests of justice, as in this case,
27 the court finds that requiring each side to bear its own fees is
28 a "fair allocation of the burdens of litigation as between

1 [Bridge the] winner and [McKesson the] loser."² S.C. Johnson &
2 Son, Inc. v. Carter-Wallace, Inc., 781 F.2d 198, 201 (Fed. Cir.
3 1986).

4 **BACKGROUND**

5 On December 13, 2002, McKesson sued Bridge, alleging
6 infringement of U.S. Patent No. 4,857,716 ("the '716 patent").
7 McKesson acquired the '716 patent as part of its acquisition of
8 HBOC of Atlanta in approximately 1988. (Opp'n, filed Aug. 4,
9 2006, at 1.) HBOC of Atlanta had acquired the patent during its
10 acquisition of CliniCom, Inc. ("CliniCom")--the original assignee
11 of the '716 patent. (Id.) During the mid-1980's, CliniCom hired
12 the law firm of Merchant & Gould P.C. ("M&G") to act as its
13 patent counsel for the prosecution of several patent applications
14 related to medication administration technology. (Id. at 1-2.)
15 Then M&G attorney Michael Schumann ("Schumann") was the principal
16 attorney in charge of the CliniCom applications, including the
17 application that issued as the '716 patent.³ (Id. at 2.)

18 By way of affirmative defense to McKesson's complaint and
19 via its own counter-complaint for declaratory judgment, Bridge
20 asserted that the '716 patent is unenforceable due to inequitable

21 ² Because the court declines to award fees, it does not
22 consider whether the amount of fees claimed by Bridge is
23 reasonable. The court notes, however, that McKesson did not
24 challenge the number of hours claimed by Bridge or
25 Bridge's requested rates, but rather argued that Bridge was
26 entitled only to those fees, if at all, relating to the work on
27 the inequitable conduct issue. In that regard, McKesson argued
28 that Bridge should be entitled to no more than \$669,057.25 in
fees. Bridge responded that McKesson miscalculated the amount of
fees attributable to the inequitable conduct issue, claiming said
amount to be \$995,984.71.

³ Some of these facts were not introduced at trial;
however, Bridge has not opposed the facts on the motion.

1 conduct by Schumann during the prosecution of the patent before
2 the United States Patent and Trademark Office ("PTO").

3 Ultimately, the lawsuit engendered more than three years of
4 hard fought litigation, which included: (1) McKesson's motion to
5 strike certain affirmative defenses and counterclaims of Bridge,
6 which the court granted in part (Docket # 37); (2) Bridge's
7 motion for summary judgment, brought prior to any discovery or
8 even Bridge's answer to the complaint, which the court denied
9 (Docket # 36); (3) Bridge's discovery motion to limit certain
10 discovery but in essence seeking a partial claim construction,
11 which while provided by the magistrate judge, was vacated
12 subsequently by this court (Docket # 128); (4) McKesson's motion
13 for a preliminary injunction, which the court denied (Docket
14 # 185); (5) multiple rounds of claim construction briefing and
15 hearing; (6) two years of fact discovery including third-party
16 discovery and twenty-seven depositions; (7) the exchange of
17 expert reports and seven expert depositions; (8) six summary
18 judgment motions--four filed by McKesson and two by Bridge, all
19 of which the court denied (Docket #s 532, 533, 535, 547);
20 (9) McKesson's motions to reopen discovery and add Cerner
21 Corporation as a party, which the court denied; (10) preparation
22 and a 4-day trial of the inequitable conduct issue; and
23 (11) preparation for a four to five week jury trial on
24 infringement and validity.

25 In May 2006, the court presided over the inequitable conduct
26 bench trial. On June 13, 2006, the court issued Findings of Fact
27 and Conclusions of Law ("FF&CL") holding that inequitable conduct
28 occurred in the prosecution of the '716 patent, thereby finding

1 the patent unenforceable. (FF&CL, filed June 13, 2006.) The
2 court found that Schumann intentionally withheld three pieces of
3 highly material information from the PTO: (1) the prior art Baker
4 patent (id. at 20-34); (2) two rejections of substantially
5 similar claims in the co-pending '009 prosecution (id. at 34-45);
6 and (3) the allowance of substantially similar claims in the
7 co-pending '372 prosecution (id. at 45-48). The court further
8 found that during his testimony, "Mr. Schumann offered nothing
9 other than bare denials of intent, combined with numerous excuses
10 that this court finds implausible and not credible." (Id. at
11 50:7-10; see also Id. at 31:16-32:11 [Schumann's excuse regarding
12 the nondisclosure of Baker "strains credulity" and "is simply not
13 credible"]; Id. at 41:12-15 [explanation for nondisclosure of the
14 '009 rejections "is not accurate"]; Id. at 49:18-20 [Schumann
15 "failed to provide a credible explanation for his
16 nondisclosures."].) In conducting the equitable weighing of
17 materiality and intent, the court recognized that "[a] pattern of
18 material nondisclosures, such as present here, weighs firmly in
19 favor of unenforceability." (Id. at 48:27-28.) The court
20 accordingly ruled that the inequitable conduct rendered the '716
21 patent unenforceable. (Id. at 50:13-15.)

22 STANDARD

23 Under the "American Rule," prevailing parties are not
24 normally entitled to attorney fees in federal court. See
25 Machinery Corp. of America v. Gullfiber, 774 F.2d 467, 471 (Fed.
26 Cir. 1985). One reason for having each party bear its own fees
27 is so that litigants are not "penalized for merely defending or
28 prosecuting a lawsuit." Id. The Patent Act provides a limited

1 exception to the "American Rule," allowing prevailing parties to
2 recover reasonable attorney fees in "exceptional" cases.
3 35 U.S.C. § 285 ("The court in exceptional cases may award
4 reasonable attorney fees to the prevailing party.") The statute
5 does not define an "exceptional cas[e]."

6 Courts have determined that whether to award attorney fees
7 under § 285 is a two-step process. First, the court must
8 determine whether a case is exceptional. Phonometrics, Inc. v.
9 Westin Hotel Co., 350 F.3d 1242, 1245 (Fed. Cir. 2003). It is
10 the prevailing party's burden to demonstrate the exceptional
11 nature of the case by clear and convincing evidence. Cambridge
12 Prods., Ltd. v. Penn Nutrients, Inc., 962 F.2d 1048, 1050 (Fed.
13 Cir. 1992). Second, if the court finds the case exceptional, it
14 must decide, in its discretion, whether an award of fees is
15 appropriate. Phonometrics, 350 F.3d at 1245.

16 "The prevailing party may prove the existence of an
17 exceptional case by showing: inequitable conduct before the PTO;
18 litigation misconduct; vexatious, unjustified, and otherwise bad
19 faith litigation; a frivolous suit or willful infringement."
20 Epcon Gas Sys., Inc. v. Bauer Compressors, Inc., 279 F.3d 1022,
21 1034 (Fed. Cir. 2002) (internal citations omitted). However, a
22 finding of inequitable conduct does not *require* a finding that
23 the case is exceptional. Gardco Mfg., Inc. v. Herst Lighting
24 Co., 820 F.2d 1209, 1215 (Fed. Cir. 1987) ("it has not been held
25 that every case of proven inequitable conduct must result in an
26 automatic attorney fee award, or that every instance of
27 inequitable conduct mandates an evaluation of the case as
28 'exceptional.'") Indeed, courts have recognized that "[t]o prove

1 a case exceptional imposes more stringent requirements than proof
2 of inequitable conduct." National Diamond Syndicate Inc. v.
3 Flanders Diamond USA Inc., 67 U.S.P.Q.2d (BNA) 1671, 1676 (N.D.
4 Ill. 2003). In holding that inequitable conduct rises to the
5 level of exceptional circumstances warranting attorney fees,
6 courts have been influenced by, *inter alia*, the following
7 factors: "(1) multiple material references were withheld from the
8 PTO; (2) misleading statements and misrepresentations were made
9 to the PTO as a result of the non-disclosure; (3) inequitable
10 conduct formed the basis for the issuance of the patent; and
11 (4) the applicants engaged in a 'program' of withholding their
12 knowledge of material information from the PTO." Evident Corp.
13 v. Church & Dwight Co., Inc., 2003 U.S. Dist. LEXIS 26296, *7-8
14 (D. N.J. June 30, 2003), *aff'd*, 399 F.3d 1310 (Fed. Cir. 2005).

15 Nevertheless, even an exceptional case does not require in
16 all circumstances the award of attorney fees. Consolidated
17 Aluminum Corp. v. Foseco Int'l Ltd., 910 F.2d 804, 815 (Fed. Cir.
18 1990). "In the context of fee awards to prevailing accused
19 infringers, we have observed that § 285 is limited to
20 circumstances in which it is necessary to prevent 'a gross
21 injustice' to the accused infringer[.]" Forest Labs., Inc. v.
22 Abbott Labs., 339 F.3d 1324, 1329 (Fed. Cir. 2003) (internal
23 citations omitted). To determine whether attorney fees are
24 warranted, a court should "weigh considerations such as the
25 closeness of the case, the tactics of counsel, the conduct of the
26 parties, and any other factors that may contribute to a fair
27 allocation of the burdens of litigation as between winner and
28 loser." S.C. Johnson, 781 F.3d at 201.

1 The decision to award attorney fees, *vel non*, is
 2 discretionary and permits the judge to weigh
 3 intangible as well as tangible factors: the degree
 4 of culpability of the infringer, the closeness of the
 question, litigation behavior, and any other factors
 whereby fee shifting may serve as an instrument of
 justice.

5 Superior Fireplace Co. v. Majestic Prods. Co., 270 F.3d 1358,
 6 1378 (Fed. Cir. 2001) (internal quotations and citation omitted).
 7 In the end, the court must decide, in its discretion, whether "it
 8 would be 'grossly unjust' for the winner to bear the burden of
 9 [its own] counsel fees [which] prevailing litigants normally
 10 bear." Pollenex Corp. v. Sunbeam-Home Comfort, 835 F. Supp. 403,
 11 404 (N.D. Ill. 1993); Rohm & Hass Co. v. Crystal Chem. Co., 763
 12 F.2d 688, 691 (Fed. Cir. 1984).

13 ANALYSIS

14 1. Is This An Exceptional Case?

15 _____ McKesson does not dispute that Bridge is the prevailing
 16 party in this litigation based on the court's judgment finding
 17 the '716 patent unenforceable for inequitable conduct. The
 18 parties do, however, vigorously dispute whether the court's
 19 finding of inequitable conduct provides grounds for an
 20 exceptional case determination. On one hand, Bridge emphasizes
 21 that the Federal Circuit has "repeatedly identified as
 22 'exceptional' those cases involving inequitable conduct before
 23 the Patent Office." Forest Labs., 339 F.3d at 1329. To Bridge,
 24 the court's inequitable conduct ruling *alone* provides
 25 "compelling" grounds to deem this case exceptional under § 285.
 26 McKesson, on the other hand, stresses that a finding of
 27 inequitable conduct does not *require* a finding of an exceptional
 28 case, see Gardco, 820 F.2d at 1215, and here, McKesson argues,

1 the facts supporting the court's finding are not "so egregious"
2 as to warrant the conclusion of exceptional circumstances.

3 The court agrees with Bridge. First, an exceptional case
4 finding is warranted here given the court's previous finding of a
5 pattern of highly material nondisclosures. (FF&CL at 48:27-28.)
6 "The number of material references intentionally withheld from
7 the PTO is relevant to finding a case exceptional"

8 Evident Corp., 2003 U.S. Dist. LEXIS 26296 at *10, *14 (premising
9 exceptional case finding in part on applicants' "engage[ment] in
10 a program to withhold material art from the PTO"). In this case,
11 the inequitable conduct "extended well beyond any mere isolated
12 lapse in disclosing a potential prior art reference." Tarkett,
13 Inc. v. Congoleum Corp., 156 F.R.D. 608, 614 (E.D. Pa. 1994).

14 The court found that Schumann failed to disclose *multiple*
15 material references—the Baker patent, the '009 rejections and the
16 '372 notice of allowance. Like in Tarkett, this conduct
17 "represented a general breakdown in the candor and good faith
18 with which [the patent prosecutor] was expected to deal with the
19 patent office." Id.; see also Evident Corp., 2003 U.S. Dist.
20 LEXIS 26296 at *14 (Schumann, like the inventors and their
21 counsel in Evident Corp., "failed to disclose material prior art
22 to the PTO despite multiple opportunities," to do so).⁴

23 Moreover, with respect to each non-disclosure, the court
24 found the showings of materiality and intent to deceive "high."
25 (FF&CL at 50:5-6.) Indeed, based on that conclusion, the court

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27 ⁴ See FF&CL at 29:11-30:10 (describing Schumann's
28 multiple opportunities, after Examiner Lev brought the Baker
patent to his attention, to disclose the patent in the '716
prosecution).

1 expressly noted that any one of the subject non-disclosures would
2 support judgment of unenforceability. (FF&CL at 50:2-5.)
3 Significantly, Schumann's non-disclosures allowed him to make
4 arguments to the PTO that he otherwise would have been unable to
5 make had he disclosed the references. (FF&CL at 28:16-30:10 [re:
6 the Baker patent], 38:4-39:6 [re: the '009 rejections].) As to
7 '372 allowance, the court found that disclosure may well have
8 resulted in the rejection of the '716 application for double
9 patenting. (FF&CL at 45:13-46:11.) As recognized by other
10 courts, such facts strongly support a finding that the case is
11 exceptional. See e.g.; Agfa Corp. v. Creo Prods., Inc., 451 F.3d
12 1366, 1378 (Fed. Cir. 2006) (basing exceptional case finding, in
13 part, on fact that undisclosed prior art was "inconsistent with
14 Agfa's misleading statements to the examiner during
15 prosecution"); Evident Corp., 2003 U.S. Dist. LEXIS 26296 at *13
16 (exceptional case finding warranted where non-disclosed prior art
17 enabled applicants to make multiple subsequent misrepresentations
18 regarding the prior art and non-disclosures directly led to the
19 issuance of the patent); Tarkett, 156 F.R.D. at 614 (exceptional
20 case finding based on facts that non-disclosed prior art
21 anticipated at least some claims of the subject patent and
22 misleading statements were made to the PTO about the non-
23 disclosed prior art); Pollenex, 835 F. Supp. at 405 (finding
24 important to the exceptional case determination that the failure
25 to disclose two prior art references misled the PTO into
26 believing that three or more references had to be combined to
27 achieve the element combination in the claim).

1 Finally, the court found that Schumann failed to proffer a
2 credible explanation for his conduct. "[S]chumann offered
3 nothing other than bare denials of intent, combined with numerous
4 excuses that this court finds implausible and not credible."
5 (FF&CL at 50:5-10.) The court concluded that this was "not a
6 case of mistake or negligence" and that Schumann had acted in a
7 "wayward position contrary to law." (FF&CL at 49:20-21, 49:26.)

8 McKesson argues that its defenses raised at trial preclude
9 an exceptional case finding. These failed defenses, which the
10 court rejected and found lacked credibility, do not affect the
11 analysis. Similar arguments were made in virtually every case
12 deemed exceptional. See e.g. Bruno v. Living Aids, Inc. v. Acorn
13 Mobility Servs., Ltd., 394 F.3d 1348, 1352 (Fed. Cir. 2005) (case
14 exceptional despite patentee's argument that it was not aware of
15 the prior art's materiality, and looking back in hindsight, it
16 believed the withheld prior art was immaterial and cumulative of
17 other disclosed art).

18 Furthermore, while the court acknowledges that McKesson
19 proffered some evidence of Schumann's good faith and candor
20 before the PTO, in that he disclosed numerous examples of prior
21 art and the co-pendency of the various CliniCom applications to
22 the '716 examiner, said evidence does not persuade the court that
23 this case is *not* exceptional. The cases relied on by McKesson
24 are distinguishable. In Elk Corp. of Dallas v. GAF Bldg.
25 Materials, 2000 U.S. Dist. LEXIS 2658, *6 (N.D. Tex. Mar. 7,
26 2000), the district court denied an award of fees, finding the
27 case not exceptional, in part, because the plaintiff patentee
28 disclosed other material prior art during the prosecution of the

1 patent-in-suit. However, in its findings of fact and conclusions
2 of law, the Elk Corp. court expressly found the inequitable
3 conduct issue to be a "close question." Id. Ultimately, the
4 court found that the plaintiff did not "disclose the most
5 material prior art [and thus was found to have committed
6 inequitable conduct]," but noted that the plaintiff was
7 "reasonably entitled to rely on the arguments it advanced at
8 trial." Id. at *6-7. Similarly, in Torin Corp. v. Philips
9 Industries, Inc., 625 F. Supp. 1077, 1096-97 (S.D. Ohio 1985),
10 the district court found the case, involving the non-disclosure
11 of only piece of prior art, not exceptional because the
12 "questions of fact were close" and the inequitable conduct was
13 proved "circumstantially from events occurring nearly twenty
14 years before the suit was initiated."

15 Here, the *pattern* of deceit and the array of excuses offered
16 by McKesson which this court found wholly lacking in credibility
17 distinguish this case from Elk Corp. and Torin. Nowhere in the
18 court's FF&CL did it describe this case as a "close question,"
19 nor could the court's analysis of the facts here reasonably be
20 given this interpretation.

21 Accordingly, based on the above, the court finds this case
22 exceptional.

23 **2. Is An Award of Attorney Fees Appropriate?**

24 While the court has concluded that Bridge succeeded in
25 presenting evidence sufficient to meet its burden to prove
26 inequitable conduct and the exceptional nature of this case,
27 "that does not mean the case [is] 'open and shut'" regarding the
28 award of fees. Espeed, Inc. v. Brokertec USA, L.L.C., 417 F.

1 Supp. 2d 580, 600 (D. Del. 2006) (finding case exceptional but
2 declining to award attorney fees where case was "hard fought"⁵
3 with a split jury verdict finding infringement but deeming patent
4 invalid and the plaintiff's counsel was professional in the
5 conduct of the litigation); accord Modine Mfg. Co v. The Allen
6 Group, Inc., 14 U.S.P.Q.2d 1210 (N.D. Cal. 1989) (finding case
7 exceptional because of willful infringement but declining to
8 award attorney fees). Clearly, an exceptional case does not
9 require, in all circumstances, the award of attorney fees.
10 Consolidated Aluminum Corp., 910 F.2d at 815 (affirming district
11 court's decision to deny attorney fees' request despite finding
12 of inequitable conduct, stating that this ruling was in accord
13 with the court's "repeated statement that not every case deemed
14 'exceptional' must result in a fee award").

15 Here, a variety of factors militate against an award of fees
16 to Bridge:

17 **a. McKesson's & CliniCom's Lack of Involvement in the**
18 **Inequitable Conduct**

19 First, the subject conduct occurred over 20 years ago and
20 neither McKesson nor CliniCom were involved in the inequitable
21 conduct. Indeed, McKesson did not acquire any rights in the '716
22 patent until more than a decade after the inequitable conduct
23 occurred. In this case, unlike all the cases cited by both
24 parties, there was simply no evidence that the plaintiff,

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26 ⁵ Concurrently with the jury trial, the parties in Espeed
27 tried the issues of inequitable conduct and laches to the court.
28 By the instant opinion, the district court issued its post-trial
findings of fact and conclusions of law pursuant to Fed. R. Civ.
P. 52(a) and rendered its decision on an award of fees pursuant
to § 285. Id. at 584.

McKesson, or its predecessor, CliniCom, had any role in the inequitable conduct. In that regard, McKesson correctly argues that the cases relied on by Bridge to support an award of fees are distinguishable because in each of the cases a close nexus existed between the plaintiff(s) in the patent action and the party responsible for the inequitable conduct. See e.g. Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370, 1375, 1385 (Fed. Cir. 2001) (awarding attorney fees for inequitable conduct committed directly by *the plaintiff* in failing to disclose on-sale bar activities and suing on a knowingly invalid patent); Vardon Golf Co. v. Karsten Mfg. Corp., 2003 U.S. Dist. LEXIS 5072, *3-4 (N.D. Ill. Mar. 31, 2003) (awarding fees for inequitable conduct based on *the plaintiff's* failure to disclose known, material prior art); Ulead Sys., Inc. v. Lex Computer & Mgmt. Corp., 151 F. Supp. 2d 1192, 1204 (C.D. Cal. 2001) (awarding attorney fees for inequitable conduct committed by *CEO and sole shareholder of the plaintiff*); Tarkett, 156 F.R.D. at 614 (awarding attorney fees for inequitable conduct based on fraudulent acts of *the plaintiff* "carried out at the highest and most responsible levels of the company"); Pollenex, 835 F. Supp. at 404-06 (awarding attorney fees for inequitable conduct based on *the plaintiff's* intentional copying of prior art devices and failure to disclose those prior art devices to the PTO).

Even Evident Corp. and Peabody Myers Corp. v. Vac-Con Inc., 17 U.S.P.Q.2d 1817 (M.D. Fla. 1990), the two cases cited by Bridge which did not involve inequitable conduct by the plaintiffs themselves, are distinguishable because in both of

1 these cases, the plaintiffs' predecessors were involved in the
2 conduct. In Evident Corp., the inventors and their counsel
3 committed the inequitable conduct; the patent was later licensed
4 to plaintiff Evident Corporation. 2003 U.S. Dist. LEXIS 26296 at
5 *2. In Peabody, while plaintiff Peabody was not involved in the
6 subject conduct, its predecessor-in-interest was actively
7 involved in the wrongdoing. 17 U.S.P.Q.2d at 1827-28. Here,
8 there was no evidence whatsoever that CliniCom played any role in
9 the wrongdoing.

10 While McKesson's authorities, denying awards of fees, could
11 also be distinguished on this basis (see e.g. Elk Corp., Torin,
12 Gardco, Consolidated Aluminum, and Nat'l Diamond Syndicate), the
13 court finds that McKesson's and CliniCom's lack of involvement in
14 the inequitable conduct weighs heavily against an award of fees
15 in this case. Said fact, contrary to Bridge's argument, is
16 properly considered by the court. While Bridge is correct that a
17 patent holder may be charged with the consequences of inequitable
18 conduct that occurred in the prosecution of a patent without
19 regard to its own guilt or innocence,⁶ the court may nonetheless
20 consider McKesson's and CliniCom's lack of involvement in
21 deciding whether to award fees. The two issues are separate
22 inquiries: By law, McKesson may be held accountable for
23 inequitable conduct and its patent deemed unenforceable, even

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25 ⁶ See Stark v. Advanced Magnetics, Inc., 119 F.3d 1551,
26 1556 (Fed. Cir. 1997) ("One bad apple spoils the entire barrel.
27 Misdeeds of co-inventors, or even a patent attorney can affect
28 the property rights of an otherwise innocent individual.");
Peabody, 17 U.S.P.Q.2d at 1817 (corporation that acquired
interest in patent through merger found liable for inequitable
conduct committed long before it acquired its interest in the
patent and ordered to pay attorney fees).

1 though it was not a direct participant in the wrongdoing.
2 However, that finding does not prevent the court from considering
3 the level of culpability in deciding whether justice would be
4 served by an award of fees. See e.g. Bayer AG v. Housey Pharma.,
5 Inc., 2004 U.S. Dist. LEXIS 9633, *7 (D. Del. Jan. 29, 2004)
6 (reducing amount of attorney fees in inequitable conduct case and
7 noting that "the court has already granted substantial relief to
8 Bayer in the form of a declaration of unenforceability"), *vacated*
9 *by* 140 Fed. Appx. 948 (vacating award of fees because of remand
10 of inequitable conduct determination for further findings).

11 The court's decision, here, is ultimately an equitable one
12 and where there is no evidence that McKesson or its predecessor,
13 CliniCom, were involved in the conduct, the court *should be*
14 hesitant to award fees so as not to chill the pursuit of valid
15 patent infringement claims. See Revlon, Inc. v. Carson Prods.
16 Co., 803 F.2d 676, 679 (Fed. Cir. 1986) (affirming denial of
17 attorney fees and holding that "[a]ttorney fees are not to be
18 routinely assessed against a losing party in litigation in order
19 to avoid penalizing a party 'for merely defending or prosecuting
20 a lawsuit'"). Indeed, there is no evidence here that McKesson
21 had any actual and/or constructive knowledge, prior to this
22 lawsuit, that the '716 patent was procured through inequitable
23 conduct. By law, McKesson's '716 patent was presumptively valid
24 (35 U.S.C. § 282); McKesson apparently learned of the inequitable
25 conduct charges through this lawsuit; once revealed by Bridge's
26 answer and counter-complaint, McKesson gleaned the relevant facts
27 from the prosecution history as Schumann had no present
28

1 recollection of the events in question.⁷ (FF&CL at 30:11-31:4.)
2 That McKesson may have become aware of facts that the court later
3 determined constituted inequitable conduct does not equate with
4 pursuit of inequitable conduct itself. Forest Labs., 339 F.3d at
5 1329-30 (reversing award of attorney fees and holding that
6 knowledge of the events that led to a finding of equitable
7 estoppel could not be equated with bad faith knowledge that the
8 plaintiff would be equitably estopped from pursuing its claims).
9 Under these circumstances, the court agrees with McKesson that:

10 An award of fees against McKesson would send a signal
11 to patent assignees that even though they own a
12 presumptively valid patent and have no knowledge of
13 potential inequitable conduct when bringing suit, they
14 run a risk that upon a good faith assertion of that
15 patent against an infringer, they will be held liable
16 for substantial attorney fees relating to inequitable
17 conduct in which they played no role but vigorously
18 contested at trial.

15 (Opp'n, filed Aug. 4, 2006, at 8:20-25.) Such a rule of decision
16 is contrary to the federal policy behind the Patent Act. Revlon,
17 803 F.2d at 679; Fleischmann Distilling Corp. v. Maier Brewing
18 Co., 386 U.S. 714, 718 (1967).
19
20

21 ⁷ Bridge makes much of the fact that McKesson and
22 Schumann were represented by the same counsel in this action;
23 Bridge argues that by the joint representation, McKesson should
24 be charged with knowledge of the fact of Schumann's inequitable
25 conduct. However, Schumann had no recollection of the events at
26 issue, and thus, McKesson cannot be charged with any knowledge
27 supplied by Schumann. Schumann conceded at deposition and trial
28 that he had no present recollection of the '716 patent
prosecution, and his testimony was based therefore on his custom
and practice and that of his firm at the time, as well as his
beliefs, now, looking back at the file history. Ultimately, this
proved significant to the court's decision as Schumann was unable
to provide the court with a good faith, contemporaneous
explanation for what occurred. This, however, is not a basis for
an award of fees to Bridge.

b. McKesson's Claims and Defenses were not Frivolous

During this litigation, McKesson vigorously opposed the charge of inequitable conduct. It successfully opposed, based largely on its experts' opinions, Bridge's motion for summary judgment on the issue. This success is strong evidence that McKesson's positions on inequitable conduct were not frivolous. Sulzer Textil A.G. v. Picanol N.V., 358 F.3d 1356, 1370 (Fed. Cir. 2004) (affirming district court's denial of attorney fees to the prevailing defendant because "it is difficult to conceive of a 'baseless' claim that survived summary judgment). In fact, after the court's denial of Bridge's motion for summary judgment, Bridge dropped allegations it previously advanced regarding the subject inequitable conduct (e.g., Bridge did not pursue at trial allegations concerning six prior art references disclosed in the '441 patent application). (Mem. & Order, filed Aug. 11, 2005, at 4:9-13.) This is further evidence that McKesson's positions were not frivolous or taken in bad faith. While, in the end, the court did not agree with McKesson's experts' opinions and with McKesson's arguments concerning the inferences to be drawn from the evidence presented at trial, this disagreement is not a sufficient basis to find that McKesson engaged in the "bad faith" pursuit of baseless claims, as asserted by Bridge.

c. McKesson did not Engage in Vexatious Litigation Tactics

Bridge not only argues the baselessness of McKesson's claims but argues more generally that McKesson engaged in various "bad faith" and "vexatious" litigation tactics which warrant a grant of attorney fees to Bridge. Whether the parties engaged in bad

1 faith or vexatious litigation tactics is often a consideration
2 used by courts to determine the propriety of an award of fees.
3 See e.g. Elk Corp., 2000 U.S. Dist. LEXIS 2658, *10 (holding that
4 even had the court found the case exceptional, it would have
5 denied fees due to *both* parties' bad faith litigation tactics);
6 Torin, 625 F. Supp. at 1097 (denying fees, in part, because the
7 plaintiff conducted litigation fairly and expeditiously by
8 dismissing claims with no merit); Consolidated Aluminum, 910 F.2d
9 at 814 (affirming denial of fees and noting that the defendant
10 had been adjudicated a willful infringer, had engaged in delay
11 tactics, had lost some of its claims, and the plaintiff prevailed
12 on many of its infringement claims); Peabody, 17 U.S.P.Q. 2d at
13 1828 (awarding fees, in part, because plaintiff persisted in
14 litigating the case despite the *obvious* invalidity of the
15 patent); Vardon, 2003 U.S. Dist. LEXIS 5072, *4 (awarding fees,
16 in part, because plaintiff had engaged in vexatious litigation
17 tactics).

18 Here, Bridge argues that McKesson unnecessarily complicated
19 this litigation by advancing arguments that directly contradicted
20 (1) the facts as it knew or should have known them to be, (2) the
21 law, (3) the court's rulings, and/or (4) its own witnesses'
22 testimony. Bridge gives several purported examples relating to
23 each of the subject non-disclosures by Schumann.

24 First, regarding the Baker patent, Bridge argues that at
25 summary judgment, McKesson refused to admit Baker disclosed a
26 three-node wireless communication system employing a radio
27 transmission link between a portable handheld unit and a fixed
28 base station unit, yet, at trial, McKesson's expert Bims conceded

1 this fact. Bridge also argues that Bims conceded, contrary to
2 McKesson's position on the motion for summary judgment, that the
3 Baker patent was material from a scientific standpoint.

4 Bridge's examples do not demonstrate bad faith litigation
5 tactics by McKesson. McKesson provided *reasoned* and *supported*
6 responses to Bridge's arguments at summary judgment. Indeed, the
7 court denied both parties' cross-motions for summary judgment on
8 inequitable conduct finding that based on the proffered,
9 competing expert testimony, triable issues of fact remained.
10 Specifically as to the Baker patent, McKesson disputed Bridge's
11 reading of the Baker patent's claim terms; as such, McKesson
12 argued Bridge's statement of "undisputed fact" regarding the
13 three-node system was overbroad in light of the actual wording of
14 the Baker patent itself, which McKesson quoted from in its
15 response to Bridge's "undisputed fact." Moreover, at summary
16 judgment, McKesson disputed, through its expert, that the Baker
17 patent was material, at all, to the '716 prosecution; in
18 McKesson's view, Baker was cumulative of other art disclosed by
19 Schumann involving telecommunications. This position was
20 supported by evidence and not wholly without merit. Finally,
21 while Bims did concede at trial that the Baker patent was
22 material from a "scientific standpoint," his ultimate opinion was
23 that the patent was cumulative of other art disclosed, and thus
24 not material.

25 Next, Bridge argues regarding the '009 rejections, that at
26 summary judgment, McKesson improperly argued that there was no
27 evidence Schumann knew he was under a duty to disclose a
28 rejection from a co-pending case. At his deposition taken prior

1 to the motions, Schumann testified he would disclose rejections
2 in co-pending cases if they were material. Also, Bridge points
3 out that McKesson continued to argue at trial, despite the
4 court's ruling on the motions for summary judgment,⁸ that Dayco
5 Products, Inc. v. Total Containment, Inc., 329 F.3d 1358, 1368
6 (Fed. Cir. 2003), created new law. Finally, Bridge argues
7 McKesson maintained at summary judgment that the '009 rejections
8 were immaterial because they related to a "handheld" instead of a
9 "system," but at trial, Schumann testified otherwise and the
10 court ultimately found the argument "not credible."

11 Again, Bridge's examples are not persuasive. Schumann's
12 testimony regarding the obligation to disclose rejections in co-
13 pending cases must be read in full context.⁹ His response was
14 given after heavy "cross-examination" during that portion of the
15 deposition, and his answer could fairly be read as only an
16 admission that he understood *if* a rejection *was material*, he
17 would be obligated to disclose it. He later testified that he
18 could not recall a single instance in which he had determined
19 that a rejection was material and should be disclosed. That
20 testimony was consistent with his repeated statements that it was
21 his custom and practice and that of his firm at the time, to
22

23 ⁸ In its memorandum and order of August 11, 2005, denying
24 the parties' cross-motions for summary judgment on inequitable
25 conduct, the court found that Dayco did not create new law.
(Mem. & Order at 10 n.8.)

26 ⁹ Schumann testified: "if it was deemed relevant and in
27 your duty to disclose, you would do that [disclose a material
28 rejection in a co-pending case]. I'm just saying that the
typical normal course is that it's rare that you would bring an
office action to the attention of the examiner in a co-pending
case." (Schumann Dep., 127:24-128:4.)

1 never disclose office actions in co-pending cases because they
2 believed they were under no duty to do so. Moreover, McKesson,
3 as an advocate for its position, understandably did not raise
4 this testimony of Schumann; however, significantly, nor did
5 Bridge raise the testimony in support of its motion (and
6 presumably Bridge should have, if in its view, such testimony was
7 persuasive). Furthermore, there is nothing vexatious about
8 McKesson's continued assertion of its position on Dayco (that
9 Dayco created new disclosure obligations that did not apply to
10 Schumann at the time of the '716 prosecution). Bridge never
11 objected during trial to McKesson's argument, and the court did
12 raise the issue either. In rendering its decision, the court
13 found some of McKesson's arguments unpersuasive and some of its
14 witnesses' testimony not credible. However, such findings do not
15 render McKesson's positions vexatious. Nothing about McKesson's
16 conduct in this case has exceeded the "normal bounds of
17 aggressive advocacy." Cf. Elk Corp., 2000 U.S. Dist. LEXIS 2658
18 at *10. This litigation was, as noted at the outset, hard fought
19 by very capable, specialized and admirably professional counsel
20 on both sides.

21 Finally, Bridge contends with respect to the '372 notice of
22 allowance, that at summary judgment, McKesson took the position
23 that Schumann had no duty to disclose a notice of allowance in a
24 co-pending case, yet at trial, McKesson's expert Smegal testified
25 that such a duty existed for a substantially similar claim in a
26 co-pending application.

27 However, Smegal testified that Dayco created this duty, not
28 that Schumann was under such a duty at the time of the '716

1 prosecution. Moreover, Bridge's argument is unavailing as it
2 ignores McKesson's defense that the notice of allowance in any
3 event, did not need to be disclosed because it was for an
4 invention that was patentably distinct from the '716 invention.
5 While the court did not agree with McKesson's position regarding
6 the patentably distinct nature of the inventions, its position
7 was reasoned and supported by evidence, including expert
8 testimony, and thus cannot be said to have been taken in bad
9 faith.

10 In sum, the court finds that Bridge has overstated its case
11 for "bad faith litigation tactics" on the part of McKesson. This
12 case was an aggressively litigated case between two sophisticated
13 parties represented by well-qualified counsel, specialized in
14 patent law. While McKesson may have, at times, "pushed the
15 envelope" in terms of its arguments or interpretations of the
16 evidence submitted, so too did Bridge. McKesson vigorously
17 pressed its infringement claims in this action; claims which
18 survived Bridge's motion for summary judgment of non-infringement
19 and which were set to be tried before a jury. That trial date,
20 of course, was vacated upon the court's decision finding the
21 patent unenforceable for inequitable conduct. That finding,
22 however, is no reflection on the merits of McKesson's
23 infringement claims; indeed, those claims may well have succeeded
24 had McKesson held an enforceable patent. As set forth above,
25 significantly, that patent was deemed not enforceable through no
26 conduct of McKesson's. While the court ultimately did not agree
27 with McKesson's experts nor its interpretations of the evidence,
28 the court cannot find that McKesson's positions were frivolous or

1 taken in bad faith nor its litigation tactics vexatious.

2 **d. Other Considerations**

3 In addition to the above, two other factors are noteworthy,
4 both of which further support the denial of an award of fees to
5 Bridge. First, no order of this court has found that McKesson
6 engaged in improper conduct in any facet of this litigation.
7 Bridge raises, in passing, in its motion for fees, allegations of
8 discovery misconduct by McKesson. However, while the parties had
9 numerous contentious discovery battles, McKesson was never once
10 found to have improperly withheld discovery, and in fact, several
11 times, Bridge was compelled by the court to provide discovery
12 responses and documents previously withheld.¹⁰ (See e.g. Docket
13 #s 215 [compelling Bridge to provide complete responses to
14 interrogatories], 236 [requiring Bridge to provide financial
15 information 45 days prior to disclosure of expert witnesses], 431
16 [compelling Bridge to provide supplemental response to
17 interrogatory].) Second, this case was not a "David versus
18 Goliath" contest as insinuated by Bridge. Bridge is not a small
19 competitor of McKesson; during the majority of this action,
20 Bridge was a wholly owned subsidiary of AmerisourceBergen
21 Corporation ("ABC"), one of the largest pharmaceutical services
22 companies in the United States. (Chou Decl. [Docket #559],
23 ¶ 5.) Also, during the pendency of this action, ABC sold
24 substantially all of Bridge's assets to another major competitor
25

26 ¹⁰ In the same vein, it was Bridge that brought a summary
27 judgment motion before *any* discovery had begun, which the court
28 summarily denied, and it was Bridge that surreptitiously sought
and received a claim construction ruling via a *discovery motion*,
which ruling the court subsequently vacated.

1 of McKesson, Cerner Corporation. (Id. at ¶ 2.)

2 Overall, upon consideration of the combination of above
3 factors, the court cannot find that it would be "grossly unjust"
4 for Bridge to bear its own counsel fees as prevailing litigants
5 normally do. Pollenex, 835 F. Supp. at 404; Rohm & Hass, 763
6 F.2d at 691.

7 **CONCLUSION**

8 For the foregoing reasons, the court DENIES Bridge's motion
9 for attorney fees pursuant to § 285. Despite the court's
10 conclusion that Schumann committed inequitable conduct in
11 procuring the '716 patent which rendered the patent unenforceable
12 by McKesson in this infringement action, and the finding that
13 this is an exceptional case, the court declines, in its
14 discretion, to award attorney fees to Bridge. In this case,
15 requiring each side to bear its own fees is a fair allocation of
16 the burdens of litigation as between the parties.

17 IT IS SO ORDERED.

18 DATED: September 6, 2006.

19 /s/ Frank C. Damrell Jr.
20 FRANK C. DAMRELL, Jr.
21 UNITED STATES DISTRICT JUDGE
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